SPECIAL REPORT

Boston Municipal Research Bureau

294 WASHINGTON STREET, BOSTON, MASSACHUSETTS 02108 (617) 482-3626

83-4

July 27, 1983

BOSTON FACES ESTIMATED SHORTFALL THIS YEAR

Highlights

- Boston faces an estimated \$30 to \$40 million gap between proposed FY1984 spending and available revenues despite budget cuts by both the City Council and the Mayor. Some variables will change and this estimate will be updated in the Fall.

- Appropriations approved by the Mayor and City Council last year were about \$48 million over available revenues. The actual deficit will be larger.

- The City will rely on over \$60 million of one-time revenues for operations in FY1984. Such reliance is dangerous and creates serious problems for FY1985.

- The city's workforce should be cut by 850 positions. Salary increases may be impossible this year.

- Only after a credible effort is made to reduce spending and improve service efficiency should consideration be given to longer-range options such as transfer of functions to other governmental entities and authorization of new non-tax and local tax revenues.

Two-Year Budget Restoration

The gap between planned spending and revenues in FY1984 stems in large part from the City's rush to restore services despite revenue limits. In the past two years city, hospital and county budgets have increased by \$102 million or 32%. School operations, based on the 1983-84 budget approved by the School Committee, have increased by \$27 million or 13%. The most significant increase occurred in the city departmental budgets, up \$88 million or 42%. The city payroll has grown by about 1,700 permanent employees in the 18 months since January, 1982. Over three-fourths of the increase in each of the four major budget groups occurred in FY1983. At the same time spending exceeded appropriations and revenues did not keep pace. As a result the City finished the year with an estimated \$53 million deficit.

Two-Year Growth In Spending Authorization
(in 000's)

Year	City	Hospital	County	Total	School
1982	\$207,902	\$99,666	\$11,602	\$319,170	\$210,534
1983	276,411	107,574	16,482	400,467	234,300
1984	296,082	107,811	17,770	421,663	238,103
Two Yr. Inc.	\$ 88,180	\$ 8,145	\$ 6,168	\$102,493	\$ 27,569
%	42.4%	8.2%	53.2%	32.1%	13.1%

FY1984 Budget

Last April the Mayor presented his recommended city, hospital and county budgets totaling \$444.5 million. In June, the City Council approved an aggregate budget of \$428.0 million, a cut of \$16.5 million or 4%. The city departmental budget was reduced

by $14.3 million, but the Council refused to consider cuts in 27 accounts totaling $156.4 million, 50% of the Mayor's recommendations. On July 15, recognizing that proposed spending was out of line with revenues, the Mayor himself announced additional budget cuts of $6.4 million. The combined budgets now total $421.7 million, an increase of $21.2 million or 5% over last year.

The School Committee has approved a FY1984 budget of $238.1 million, an increase of $3.8 million or 1.6%. The Committee has submitted a supplementary budget of $13.6 million for Mayoral and Council approval since its base appropriation for this year is $224.5 million. To avoid teacher layoffs, $5.2 million of the supplementary budget has been approved to date. In this analysis the Bureau is using the $238 million figure which would be expected to fund all school expenses.

The current city, hospital, county and school budgets represent approximately 70% of Boston's total operational expenses. The other 30% consists of fixed costs for items such as debt, pensions, state assessments, reserves for abatements and the chronic deficit of the prior year.

Revenues are the other side of the budget equation. Accurate revenue projection is essential under Proposition 2½. In the past the difference between proposed spending and non-property tax revenues could be bridged by increasing the property tax. Today revenue estimates dictate the total level of spending. Proposed budgets should reflect revenues remaining after fixed costs are funded. In Boston, however, spending is still the driving force. The Mayor does not prepare a public revenue budget nor does the City Council request one. Revenues have simply been inflated to produce a balance on paper and actual expenditures have exceeded appropriations. The end result has been large operating deficits in both FY1982 and FY1983.

FY1984 Budget Imbalance

The Research Bureau now estimates that the approved FY1984 operating budgets could be out of balance by between $30 and $40 million. There are numerous variables involved, some of which are not yet final. Thus, the current estimate is still subject to change. The Bureau will update its analysis of the City's fiscal situation at the time the FY1984 tax rate is set. Pending contract negotiations and arbitration decisions could make the shortfall much larger. None of the operating budgets provides for salary increases in FY1984 which could exceed $20 million. Actual spending for non-personnel accounts may exceed appropriations since over $19 million was cut from budget recommendations. The School Committee budget does not include $6 to $8 million in personnel costs paid last year which may or may not have to be paid this year depending on the outcome of current collective bargaining negotiations. The recent arbitration decision requiring the School Committee to pay full salary to teachers laid off in September, 1981, could cost up to $18 million if not successfully appealed.

FY1984 Expenditure and Revenue Estimates
($ in 000's)

Expenditures		Revenues		Expend. in Excess of Revenues
City	$296,082	Departmental	$ 56,000	
Hospital	107,811	Hospital	105,000	
County	17,770	State Aid	302,699	
School	238,103	Revenue Sharing	18,000	
Optg. Subtotal	$659,766	M.V. Excise	8,000	
		Parking Fines	28,000	
Debt & Interest	72,000	Sale of Assets	15,000	
Pensions	102,540	D.A.F. Surplus	34,085	
State Assessments	47,783	Tregor Reimbursement	13,000	
Tax Title	1,200			
Overlay	18,500	Total Non-Prop.Tax Rev.	$579,784	
Prior yr. Deficit	53,000			
Overlay Deficit	2,000	Property Tax Levy	$337,500	
Non-Optg. Subtotal	$297,023		(13.5 billion)	
Total Expenditures	$956,789	Total Revenues	$917,284	(39,505)

On the revenue side, the estimate for the property tax, still the primary revenue source, is based on a property value of $13.5 billion in FY1984. Since last year's value after revaluation was $12.2 billion, increasing the City's value by much more than $1.3 billion in one year or even 18 months without creating a future abatement problem does not seem likely. Other city revenues are based on slight increases over FY1983 actual receipts. Hospital receipts may be high since last year the City collected $5 million less than the estimated $102 million.

The sale of assets figure of $15 million represents a portion of the funds from the expected sale of four city garages. This money would be earmarked for the operational budget for debt service as allowed by the "Tregor" Funding Loan Act. The Bureau strongly believes that these funds, derived from sale of the City's "family jewels," should be reserved for capital projects, not used for operational expenses. The City's capital maintenance and replacement needs are greater than its ability to borrow in the marketplace for such purposes. The Mayor is now considering allocating even more than $15 million of these funds for current operations.

The "Tregor" act stipulates that as of June 30, 1983, any funds not expended from the Disproportionate Assessment Fund (a fund established to hold and disburse abatement payments) would be applied to the City's operational budget debt service account. As of that date the surplus was $34 million. Thus, the City borrowed $45 million at a cost of $27 million in interest to be repaid over 10 years only to take $34 million to use for City operations in FY1984. The law also authorizes reimbursement of Tregor abatements paid by City funds. Since the intent of the reimbursement was to fund the School Committee deficit, the FY1982 school deficit of $13 million is used. Some doubt does exist about the City's ability to treat these funds as new revenue.

The "Tregor" law has made available for city operations in FY1984 the three above revenue sources totaling at least $62 million. However, relying on these non-recurring revenues as a budget balancing tool is dangerous. It will create a serious revenue shortfall in FY1985 if new revenues of the same amount cannot be found. Reducing this year's shortfall by using more money from the sale of garages for operations will further widen the gap for next year.

As the estimated expenditures may increase so may the revenues. Income from the augmented fire service charge is not included here. Only if the City wins its appeal or a new special act establishing this charge satisfies prior legal objections will approximately $8 million in added money be available this year. As the City over the past few years has improved its financial position, reserves established for prior-year expenses may be sufficient to allow, after analysis, the spending of some funds for current operations.

Moving Toward A Balanced FY1984 Budget

The Mayor has taken a commendable first step to eliminate the projected gap between expenditures and revenues but further action is required now. The Bureau's shortfall estimate of between $30 and $40 million has already taken into consideration both the Council's budget cuts of $16.5 million and the subsequent $6.4 million reduction by the Mayor. The Mayor also plans to encumber 6% of each department's budget, but that amounts to only $18.8 million for City and County departments. Enforcement of such an encumbrance plan may be difficult for an administration that leaves office half-way through the fiscal year. Boston cannot continue to authorize appropriations based on over-optimistic revenue estimates and spend beyond those appropriations. That practice resulted in a $42 million operational deficit in FY1982 and an estimated $53 million shortfall in FY1983.

Recognizing the adverse financial impact of operating deficits, the state Department of Revenue (DOR) has signed an agreement with the City intended to insure a bal-

anced FY1984 operational budget. The agreement restates existing requirements that DOR not approve the FY1984 tax rate unless all authorized expenditures are adequately provided for from available and obtainable revenue sources. The agreement also contains a new requirement that appropriation orders submitted to the City Council after the tax rate is set be accompanied by analysis of the necessary supporting revenues. The Bureau has long argued for implementation of these practices and supports DOR's efforts. However, strict enforcement of the agreement may require cuts in excess of $40 million this year or result in spending beyond appropriations.

Immediate and Future Options

To reduce the estimated shortfall, City officials should further cut spending and improve service efficiency. The Mayor should initiate a program to reduce the city-funded workforce by 850 positions through attrition, early retirement incentives and not filling budgeted positions. This program should involve all departments to varying degrees depending on service priority. Since January 1, 1982, about 1,700 permanent employees have been added to the payrolls. Approximately 400 more positions are established in the FY1984 budget. The personnel reduction program should be initiated now because even after variables currently uncertain become known,a shortfall will exist.

As long as the City must overrely on the property tax to fund current service requirements, the prospect of continued gaps between revenues and expenditures exists. However, only after a credible effort is made to reduce spending and improve the delivery of departmental services should consideration be given to more long-range options to address Boston's fiscal problems. Such options include the transfer of functions now financed by the City to other governmental entities. County jail and penal services could be transferred to state jurisdiction. The change could relieve Boston of $12 to $15 million in expenses and bring the judicial and correctional services, formerly provided by the counties, together under state supervision.

A new mechanism and revenue source could be established to fund the local share of the MBTA deficit. Boston is assessed for 42% of this deficit which in FY1984 will cost the City some $41 million.

New non-tax and local tax revenue sources could be authorized. Boston remains unique among comparably sized cities in having the property tax as its only tax source to finance its government expenses. Authorization for an excise tax on parking or entertainment admissions could be considered.

Samuel R. Tyler
Executive Director

BOSTON MUNICIPAL RESEARCH BUREAU
294 WASHINGTON STREET, BOSTON, MA 02108

NON-PROFIT
BULK RATE
U.S. POSTAGE
PAID
BOSTON, MA
PERMIT NO. 9654